

**REPORT ON THE REVIEW OF
THE REQUESTED RATE INCREASE OF
WELLMARK BLUE CROSS BLUE SHIELD OF IOWA
FOR INDIVIDUAL MARKET HEALTH INSURANCE PLANS**

PRESENTED TO

THE IOWA INSURANCE DIVISION

Prepared by:

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Overland Park, Kansas

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Wellmark Blue Cross Blue Shield of Iowa – Individual Plans

INTRODUCTION

Lewis & Ellis, Inc. was engaged by the Iowa Insurance Division to determine if the proposed rates filed by Wellmark Blue Cross Blue Shield of Iowa (BCBS) for its individual line of business are actuarially sound and are equitable, adequate and not excessive.

This report describes the methodology used in our review and presents our findings and observations. The report is intended for the use of the Iowa Insurance Division. Conclusions and recommendations contained in the Report of Examination will be the responsibility of the Division.

Our review was performed in accordance with the provisions of Iowa Code Chapter 514D and 513C.

We sent two requests for clarification and additional information to BCBS. All correspondence was done using email sent directly to Patrick P. Ryan, Director, Actuarial Consulting of Wellmark Blue Cross Blue Shield of Iowa. Wellmark provided satisfactory responses which helped us to better understand their assumptions and methods.

Lewis & Ellis, Inc. is available to answer any questions that may be raised by this report. Please direct any inquiries to Tom Handley in our Overland Park office.

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BACKGROUND

Wellmark is requesting the following rates increases effective April 1, 2011 for their individual major medical block of business:

Pre-4/96 Products:

Old Alliance Select	0.0%
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New Alliance Select	0.0%
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Post-4/96 Products:

Pool III	10.8%
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Pool IV	10.8%
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Pool V	10.8%
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Group Conversion:

Age Rated CMM	0.0%
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Blue Transitions	15.0%
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Blue Value	0.0%
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This is a block of business with comprehensive major medical coverage offered to individuals. There are a number of different benefit plans available. Some of the plans are closed to new enrollment but are still being maintained by BCBS to benefit the existing enrolled members.

Wellmark last received an increase on this block effective April 1, 2010.

REVIEW METHODOLOGY

Our approach was to review the filing package submitted by BCBS. We found the filing to be complete and well-organized. It gave a clear demonstration of how the amount of the increase was determined and provided supporting documentation. We reviewed the filing closely, with emphasis on the sections regarding experience base, development of trend, administrative expenses, risk and profit charge, and the mechanics of the development of the requested rate increase.

REVIEW FINDINGS

In the background section, we described the various increases filed by BCBS. Pools III, IV, and V are being combined for one increase. The group conversion business is reviewed separately for a stand alone increase. And, the blocks with a 0% rate increase have only a minimal number of inforce members.

Development of the Requested Rate Increase

The general approach to the development of the required rate is:

1. Determine the past 12 months of medical claims for active policyholders through July 2010.
2. Apply a completion factor to the paid claims to account for claims incurred but not yet reported.
3. Determine the corporate medical trend.
4. Project the historic medical claims to the new rating period (April 2011 through March 2012) using the corporate medical trend.
5. Project the loss ratio passed on the projected claims to premiums at current rate levels.
6. Projected administrative expenses, premium taxes, and risk margin – express as a target loss ratio.
7. Compare the projected loss ratio to the target loss ratio. The needed premium increase is calculated by dividing the projected loss ratio by the target loss ratio.
8. Multiply the needed premium increase by the average premium per policyholder to determine the average income needed per contract.
9. Apply membership projections to each block of business and multiply the average income needed per contract by the projected contract exposure to determine the needed income per block.
10. Add the needed income for each block and determine the recommended increase for all Post 4/96 business assuming that the same increase is applied to each block.
11. For the Blue Transitions block of business, the calculation also includes a corporate subsidy of more than \$4.5 million in claims.

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This is a reasonable approach for developing projected premiums and the associated rate increase required to get to those projected premiums. It has a few inherent assumptions which we address.

Experience Base

BCBS has used the experience for the twelve months ending 7/31/2010 as the base. Additional exhibits were also provided to update the data through September 2010. The two experience periods show similar projection results.

Actual claims and premium data were provided as required by the Iowa Division of Insurance Exhibit 1. In addition to Exhibit 1, L&E requested spreadsheet backup for all the calculations in Exhibit 1. The calculations in Exhibit 1 were consistent with the detailed work that was provided upon our request. All calculations in Exhibit 1 appear to be appropriate and accurate.

By combining the data for Pools III, IV, and V, BCBS has extended the credibility of the block of business. This combined block of business is quite large and the credibility should be very high.

Target Loss Ratio

The target loss ratio was stated in the rate filing as a percentage; however, no detail describing the contents of the loss rate was provided. L&E requested additional information regarding the components of the target loss ratio. BCBS provided a breakdown of the target loss ratio. Administration costs are within industry norms and consistent with financial statements.

Trend

The choice of a trend assumption is always difficult and subjective. We spent a considerable effort on this part of the review.

BCBS based their trend assumption on the past trend for their Group block of business combined with corporate projected trend assumptions. The observed medical trend for the Group block of business has been 3.34%. No data supporting the 3.34% Group trend was provided in the rate filing. BCBS has stated the observed trend of 3.34% is uncharacteristically low and they do not

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believe that is the appropriate trend to use for the Individual block of business. The corporate projected trend (8%) is averaged with the observed trend to arrive at a final trend rate of 6.82%.

In addition to claim trend, BCBS also used a selection factor. The selection factor was based on the comparison of historic claim cost changes for Individual versus Group plans. The BCBS calculated selection factor ranged from 1%-12.5% on an annual basis. For the projection, BCBS used an annual rate of 2.97% for selection.

The total trend plus selection used in the BCBS projections is 6.82% for trend plus 2.97% for selection for a total of 9.99% trend.

While BCBS did submit various utilization and claim cost statistics for Pools III, IV, and V, there was no evidence of the actual historic claim trends experienced under the individual block of business. L&E requested additional claim data to calculate our own estimate of the historic claim trend for the individual block of business. L&E was able to review the historic monthly Allowed Claims and Enrollment (contracts and members) from January 2007 through September 2010 for each of the three pools (III, IV and V). We believe that this more accurately captures all the changes and trends over time for the individual block of business.

L&E used the monthly allowed claims and member information to develop exponential regression measurements and projections for Pools III, IV and V. We used the exponential regression for the 12 months ending April 2009 through the 12 months ending June 2010 to determine historical measured trend. The regression analysis yielded the following annual trend values.

<u>Pool III</u>	<u>Pool IV</u>	<u>Pool V</u>	<u>Combined</u>
5.6%	9.8%	10.1%	9.8%

These trend values are representative of all the historical changes in the individual medical block of business which includes utilization, cost increases, demographic changes and selection.

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Age-band Changes

Depending on the premium rate structure, enrollees under these plans will see an increase in premium due to achieving a new age. For Pools III and IV, rates increase every 5 years for age. For Pool V, rates increase every year for age. The explicit increase in premium derived from Age-banding was not incorporated into the BCBS projections. L&E did request data from Wellmark to document the additional premium generated from age changes throughout the year. We then separated the members into those who would receive an increase due to age change and those who would not. The premium for 2011 (versus 2010) after age changes was developed and compared to the 2010 premium with no age changes. The additional premium increase generated due to age changes is shown below.

	<u>Pool III</u>	<u>Pool IV</u>	<u>Pool V</u>
Increase from Premium Age Changes	2.33%	2.14%	2.65%

The increase from the age changes is significant and needs to be accounted for in any rate increase request. Since actual individual historical claims were used to develop the trend, it is appropriate to recognize premium changes from age since the demographic changes were included in the trend.

SUMMARY OF FINDINGS

There are essentially two requested rate increases on this block of business. Pools III, IV, and V are requested to be increased 10.8% while Blue Transitions is requested to be increased 15.0%.

We find the 10.8% rate increase for Pools III, IV, and V to be excessive, but a 15% increase for Blue Transitions is not excessive. Consequently, we recommend a few changes to the projected needed increases for Pools III, IV and V. We believe that the needed rate change for this block to be adequate is 7.5%, not the 10.8% calculated by BCBS. Below is a brief outline of our major findings:

- Plan experience was used as the baseline for the projections. Experience was treated as 100% credible. Paid claims were based on incurred dates of August 2009 to July 2010 and paid dates through July 31, 2010 for active insureds only. Calculations of the fully incurred claim amounts were determined using an undisclosed completion factor. The base experience period used for the projection is reasonable.
- Trend was calculated using an average of observed historic claim trends for the Group block of business plus the corporate projected trend rate. Additionally, a selection factor was applied to account for a total trend rate of 9.99%.
 - L&E prepared independent calculations of trend using monthly allowed claim dollars for each of the three Pools (III, IV and V). L&E uses exponential regression on rolling 12-month claim claims PMPM. Our estimates developed a total trend of 9.8%. The L&E claim trend incorporates trend for: claim costs changes, utilization changes, demographic changes and selection changes.
- Additional premium for age changes have not been accounted for in the BCBS projections. L&E believes that an appropriate projection must include an assumption for the increase in premium for age changes. Using the data provided to L&E for age changes, the expected additional income in Pools III, IV and V combined is 2.4%.
- Administrative expenses (including commissions) are within industry norm levels and are consistent with Annual Statements.

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RECOMMENDATION

We recommend the proposed increase of 7.5% for Pools III, IV, and V and a proposed increase 15.0% for Blue Transitions. This uses the L&E annual trend of 9.8% and adjusts for the additional age change premium of 2.4% for Pools III, IV and V.

The proposed changes are primarily due to the accounting of additional premium collected for age-banding.

RELIANCE AND QUALIFICATION

The purpose of this letter is to communicate our review of this filing. The use of this report by parties outside of the Iowa Division of Insurance is unauthorized. Outside parties rely on this report at their own risk.

Our conclusions are based on information supplied by Wellmark Blue Cross Blue Shield of Iowa in their original filing and in response to our inquiries for additional information. The information was not verified, but we did review it for consistency and reasonableness. If any information was inaccurate, it may require us to revise our conclusions and opinions.

Respectfully Submitted,



Thomas L. Handley, FSA, MAAA

Vice President & Principal

Lewis & Ellis, Inc.

December 29, 2010